



VIA COURIER

September 22, 2006

Surface Transportation Board
1925 K Street, NW
Washington, DC 20423-0001
Attn: STB Ex Parte No. 661

RE: STB Ex Parte No. 661 – Rail Fuel Surcharges

Dear Surface Transportation Board:

Referenced the May 11th hearing, please find enclosed the Alliance comments. Should you have any questions, please feel free to call Katherine Horne at (202) 326-5525.

Sincerely,

Frederick L. Webber
President & CEO

FLW/sf

Enclosure

**BMW Group • DaimlerChrysler • Ford Motor Company • General Motors
Mazda • Mitsubishi Motors • Porsche • Toyota • Volkswagen**

-2

**Alliance of Automobile Manufacturers Response to the Surface Transportation Board's
Request for Comments Regarding STB Ex Parte No. 661 "Rail Fuel Surcharges"**

The Alliance of Automobile Manufacturers applauds the Surface Transportation Board (STB) for listening to the rail customers who presented their concerns in the May 11th hearing and for taking a strong position relative to the inherent unfairness of the railroads' fuel surcharge practices. Due to the ongoing financial harm the surcharge practices are causing our industry, we would like to take the opportunity to provide our perspective regarding the STB Decision on Ex Parte No. 661, dated August 3, 2006.

In regard to the specific proposals made by the STB, we offer the following:

- **Linkage Requirement** – We believe that an ideal fuel surcharge would be linked to mileage. We are concerned that adding weight into the surcharge calculation would be impossible to administer for large, relatively diverse shippers such as the Alliance member companies. In cases where our rates are contracted on a carload basis, we may not track the weights of our shipments. We would prefer an option to leave weight out of the surcharge equation.
- **Double Dipping Prohibition** – The Alliance supports the STB position.
- **Appropriate Index of Fuel Cost Increases** – We support the STB recommendation that surcharges should be based on the price of U.S. #2 diesel, which correlates with the price of the actual fuel the railroads are using.
- **Reporting** – We support the STB's recommendation and believe the data would provide the "transparency" shippers have been requesting.
- **Otherwise Exempted Traffic** – We agree that the STB recommendations should be applied to all categories of rail traffic.

Since the May 11th hearing, we have seen the continued escalation in the surcharges mandated by the railroads. The inherent unfairness of these surcharges has become even clearer. With surcharges as high as 20% of their base rates, the same railroads are reporting to investors that their fuel cost represents 10-12% of revenue. Even if there was no fuel cost covered in their base rates, the surcharge revenue would be two times what it would need to be to allow them to recover their expenses!

On an annual basis, the Alliance member companies purchase approximately \$4 billion in rail services. For 2006, we are projecting that the Alliance member companies will be paying the railroads in excess of \$600 million in fuel surcharges. For the Alliance members, the unfairness of the fuel surcharge practices is not a trivial issue and we encourage the STB to act swiftly and decisively to bring the surcharges in line with actual costs.

In closing, we would like to offer one word of caution. The Alliance is concerned that the railroads may intend to comply with the STB decision by rolling their current surcharges into their base rates and creating a new surcharge mechanism which may superficially appear less onerous. (In fact, that is the approach the Norfolk Southern announced on April 24th – after most of the papers for the May 11th STB surcharge hearing had been filed.) Taking a surcharge which grossly over-compensates the railroad and rolling it into a rate does not make the surcharge reasonable. The STB should reject the new Norfolk Southern practice and any other practice which, upon review, is inconsistent with either the spirit or the letter of the August 3rd decision.

Again, the Alliance commends the STB on the actions taken relative to fuel surcharges and we encourage the STB to act quickly to implement the actions outlined in the August 3rd decision.